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NEW APPLICATION

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February 14, 2002

**VIA OVERNIGHT DELIVERY****T-03267A-02-0120**

Brian C. McNeil, Executive Secretary  
Arizona Corporation Commission  
Utilities Division  
1200 West Washington Street  
Phoenix, Arizona 85007

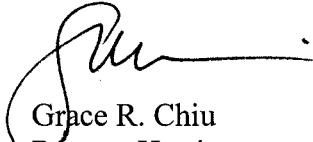
Re: In the Matter of the Application of McLeodUSA Telecommunications Services, Inc. for Approval to Pledge Assets and Issue a Guaranty in Connection with Certain Financing Arrangements

Dear Mr. McNeil:

On behalf of McLeodUSA Telecommunications Services, Inc. ("McLeodUSA"), enclosed for filing are an original and ten (10) copies of the Application for Approval to Pledge Assets and Issue a Guaranty in Connection with Certain Financing Arrangements. With this Application, McLeodUSA seeks Commission approval to pledge its Arizona assets and to issue a guaranty as part of financing arrangements involving its ultimate parent company, McLeodUSA Incorporated.

Please date stamp the enclosed extra copy of this filing and return it in the postage-prepaid, self-addressed envelope provided. If there are any questions or concerns regarding this matter, please do not hesitate to contact Rogena Harris at (202) 295-8303.

Respectfully submitted,



Grace R. Chiu  
Rogena Harris

Counsel for McLeodUSA Telecommunications  
Services, Inc.

cc: David R. Conn (McLeodUSA)  
Bethany M. Erwin (McLeodUSA)  
Richard M. Rindler

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

\_\_\_\_\_  
In the Matter of )  
 )  
 )

Application of McLeodUSA )  
Telecommunications Services, Inc. for )  
Approval to Pledge Assets )  
And Issue a Guaranty in Connection with )  
Certain Financing Arrangements )  
\_\_\_\_\_

Docket No. \_\_\_\_\_

**APPLICATION**

**I. INTRODUCTION**

McLeodUSA Telecommunications Services, Inc. ("McLeodUSA"), by and through its undersigned counsel, hereby requests Commission approval, pursuant Section 40-285 of the Arizona Revised Statutes, ARIZ. REV. STAT. § 40-285, and Rule 14-2-804 of the Arizona Administrative Code, ARIZ. ADMIN. CODE § R14-2-804, to participate in certain credit facility transactions whereby McLeodUSA will pledge its assets and issue a guaranty to secure any indebtedness incurred under the credit facilities. McLeodUSA is an authorized provider of intrastate telecommunications services in the State of Arizona. The credit facilities are part of a pending recapitalization of its ultimate parent company, McLeodUSA Incorporated ("Parent").<sup>1</sup>

Parent filed a pre-negotiated plan of reorganization (the "Reorganization Plan" or "Plan") in its chapter 11 bankruptcy proceeding as a key step in positioning Parent for the future through a restructuring of its capital structure.<sup>2</sup> Neither McLeodUSA nor any other subsidiary of Parent has filed for bankruptcy protection and therefore McLeodUSA is not a part of Parent's

<sup>1</sup> On January 31, 2002, Parent filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") for reorganization relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1330.

<sup>2</sup> The Reorganization Plan is supported by Parent's Board of Directors, its senior secured lenders, affiliates of Forstmann Little & Co., the ad hoc committee of holders of Parent's unsecured notes, and certain of Parent's preferred shareholders.

bankruptcy proceeding. McLeodUSA emphasizes that during Parent's bankruptcy proceeding, McLeodUSA expects to operate its business in the ordinary course without interruption, with no impact upon customers, employees, and trade creditors, and without interference from the Bankruptcy Court. The transactions for which McLeodUSA seeks approval are described in Section V of this Application. McLeodUSA respectfully requests Commission approval for McLeodUSA to pledge its assets and to issue a guaranty to secure indebtedness under the credit facilities as described below.

**II. EXPEDITED CONSIDERATION REQUESTED IN ORDER TO IMPLEMENT COURT ORDER AS EXPEDITIOUSLY AS POSSIBLE**

McLeodUSA respectfully requests expedited consideration of this Application. The Reorganization Plan is a key step in positioning Parent and its subsidiaries for the future by improving Parent's capital structure. To consummate its Reorganization Plan as expeditiously as possible, Parent filed the Reorganization Plan concurrently with its filing for relief under chapter 11.

The Reorganization Plan has to be confirmed by the Bankruptcy Court. The confirmation hearing is scheduled to commence on April 5, 2002. Accordingly, McLeodUSA respectfully requests that the Commission approve the instant Application on an expedited basis so as to facilitate the implementation of the Reorganization Plan, including the pledge of assets and issuance of the guaranty by McLeodUSA, as soon as possible but no later than April 5, 2002. Expedited treatment and approval of this Application will serve the public interest by enabling Parent to implement its Reorganization Plan immediately following confirmation by the Bankruptcy Court. By avoiding or minimizing any delay in implementation, McLeodUSA can assure that the benefits of the Reorganization Plan will more readily accrue to its customers in the State of Arizona.

In support of this Application, McLeodUSA states as follows:

**III. THE APPLICANT**

McLeodUSA is an Iowa corporation with principal offices located at McLeodUSA Technology Park, 6400 C Street, SW, Cedar Rapids, Iowa 52406-3177. McLeodUSA provides integrated communications services, including local services, primarily in 25 Midwest, Southwest, Northwest, and Rocky Mountain states. McLeodUSA is a wholly owned subsidiary of McLeodUSA Holdings, Inc. which, in turn, is a wholly owned subsidiary of Parent, a publicly traded Delaware corporation and the one of the largest independent competitive local exchange carriers in the United States.

In Arizona, McLeodUSA is authorized to provide resold intrastate interexchange telecommunications services pursuant to a Certificate of Public Convenience and Necessity ("Certificate") granted by the Commission by Order issued in Docket No.T-03267A-96-0515, July 16, 1998. McLeodUSA is also authorized to provide competitive resold and facilities-based local exchange and exchange access telecommunications services pursuant to a Certificate granted by the Commission in Docket No. T-03267A-99-0705, issued on June 9, 2000. Further information concerning McLeodUSA's legal, technical, managerial and financial qualifications to provide service was submitted with its applications for certification with the Commission as noted above and is, therefore, a matter of public record. McLeodUSA respectfully requests that the Commission take official notice of that information and incorporate it herein by reference.

#### **IV. DESIGNATED CONTACTS**

Questions or correspondence concerning this Application should be directed to  
McLeodUSA's attorneys of record:

Richard M. Rindler  
Grace R. Chiu  
Rogena Harris  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, N.W., Suite 300  
Washington, D.C. 20007  
(202) 424-7500 (Telephone)  
(202) 424-7645 (Facsimile)

and

Bethany M. Erwin  
Senior Counsel  
McLeodUSA Incorporated  
400 South Hwy 169, Ste 750  
Minneapolis, MN 55426  
(952) 252-5132 (Telephone)  
(952) 252-5140 (Facsimile)

#### **V. REQUEST FOR APPROVAL TO PLEDGE ASSETS AND ISSUE GUARANTY**

As stated above, Parent has formulated a Reorganization Plan to restructure its capital structure. The Plan involves, among other things, a pledge of assets and guaranty by McLeodUSA, as set forth below.

McLeodUSA seeks approval to pledge its assets and to issue a guaranty with regard to a commitment letter entered into by Parent with a syndicate of financial institutions for a \$110 million revolving credit facility; Parent has the option to obtain additional commitments to increase its size to \$160 million. Additionally, McLeodUSA seeks approval to pledge its assets and to issue a guaranty with regard to \$1 billion in credit facilities between Parent and a syndicate of financial institutions. Collectively, these "Senior Secured Credit Facilities" total \$1.16 billion.

Upon the completion of the transactions contemplated by the Reorganization Plan, the Senior Secured Credit Facilities will be secured by (i) a first priority pledge of all of the capital

stock owned by Parent and each subsidiary, including the capital stock of McLeodUSA and (ii) a perfected first priority security interest in substantially all of the assets of Parent and those of the subsidiaries, including McLeodUSA. In addition, most of the subsidiaries, including McLeodUSA, will guarantee the Senior Secured Credit Facilities. McLeodUSA respectfully requests Commission approval for McLeodUSA to pledge its assets and to issue a guaranty of any indebtedness up to \$1.46 billion under the Senior Secured Credit Facilities.

#### **VI. EFFECT OF THE PLEDGE AND GUARANTY**

McLeodUSA emphasizes that these transactions do not involve a transfer of its license nor will there be any change in the manner in which it currently offers service in the State of Arizona. Immediately following the recapitalization, McLeodUSA will continue to offer the services it currently offers with no change in its rates or terms and conditions of service. McLeodUSA, moreover, will continue to be led by the same team of experienced telecommunications management. The pledge of assets and the guaranty by McLeodUSA therefore will be seamless and transparent to consumers in the State of Arizona, in terms of the services they receive.

#### **VII. PUBLIC INTEREST CONSIDERATIONS**

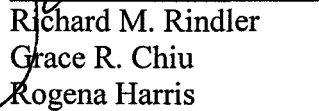
Approval of the transactions described herein will serve the public interest in promoting competition among telecommunications carriers. Specifically, the transactions will provide McLeodUSA with the opportunity to strengthen its competitive position through access to the improved capital structure of its ultimate parent. In addition, the improved financial position of Parent that will result from this increase in funding will enable Parent to implement its long-term growth plans and to significantly enhance McLeodUSA's operational flexibility and efficiency, as well as its long-term financial viability. These enhancements will inure directly to the benefit of Arizona consumers. The proposed transactions will therefore ensure the provision of innovative, high quality telecommunications services to the public and should promote competition in the Arizona telecommunications service market.

### **VIII. CONCLUSION**

WHEREFORE, for the reasons stated herein, McLeodUSA respectfully requests that the Commission grant approval of the pledge of assets and the issuance of the guaranty by McLeodUSA as described herein. McLeodUSA respectfully requests that such approval be granted on an expedited basis to allow Parent and the other parties to implement the Reorganization Plan, and consummate the transactions contemplated thereby, including the pledge and guaranty, as soon as possible but no later than April 5, 2002. Expedited review and approval of this Application will enable McLeodUSA to assure that the benefits of the Reorganization Plan will more readily accrue to its customers in the State of Arizona.

Respectfully submitted,

Bethany M. Erwin  
Senior Counsel  
MCLEODUSA INCORPORATED  
400 South Hwy 169, Ste 750  
Minneapolis, MN 55426  
(952) 252-5132 (Tel)  
(952) 252-5140 (Fax)



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Rogena Harris  
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(202) 424-7500 (Tel)  
(202) 424-7645 (Fax)

Counsel to McLeodUSA Telecommunications  
Services, Inc.

Dated: February 14, 2002

# VERIFICATION

STATE OF IOWA

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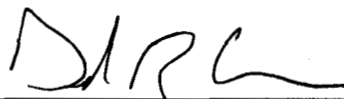
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SS.

COUNTY OF LINN

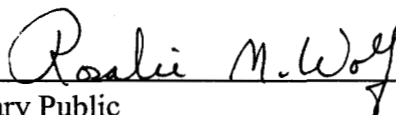
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I, David R. Conn, being first duly sworn, state that I am Vice President and Deputy General Counsel of McLeodUSA Telecommunications Services, Inc., the Applicant in the foregoing Application; that I am authorized to make this Verification on behalf of the Applicant; that I have read the foregoing Application and know the contents thereof; and that the same are true and correct to the best of my knowledge, information, and belief.



David R. Conn  
Vice President and Deputy General Counsel  
McLeodUSA Telecommunications Services, Inc.

Sworn and subscribed before me this 6 th day of February, 2002.



Notary Public

My commission expires 7/28/2003.